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EUROPE

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2. SPAIN: Franco's views on East-West struggle--According to US Embassy Madrid, General Franco in a recent interview with a US correspondent openly stated he would prefer a bilateral military and economic agreement or alliance with the US rather than Spanish participation in the UN or the North Atlantic Pact. The correspondent gained the impression that Franco underestimates Soviet strength and believes that Germany is capable of forming a first class army.
3. AUSTRIA: Concern over Communist disorders in spring--US Minister Donnelly reports that Vice Chancellor Schaerf is greatly concerned over the possibility of new Communist disorders in late February and early March. As an indication of trouble in February, Schaerf pointed to the continuous training of Communist strong arm squads in the Soviet Zone for forcible seizure of industrial installations and public utilities, and to Communist inspired demands for a 20 percent wage boost. Schaerf anticipated that high unemployment might prevent effective control of the workers by the Socialist Party and that the

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danger was therefore greater than at the time of the Communist disorders in October, 1950. Chancellor Figl also admitted the likelihood of Communist-inspired riots in February, but estimated that Austrian security forces were capable of controlling the situation. He expressed the view, however, that reduction of unemployment was essential in order to minimize the effect of any Communist disturbances.

FAR EAST

4. INDOCHINA: De Lattre's fears of "provoking" Chinese-- In a recent conversation with US Charge Gullion in Saigon, General de Lattre expressed the view that a proposal to create a joint US-British-French headquarters for consultation on Indochinese affairs should be approached with "great caution." Admitting that some kind of consultation was certainly desirable, De Lattre stressed the importance during the next four to six months of avoiding any provocation of the Chinese; he feared that the association of the US and UK in some kind of permanent headquarters might "touch off Chinese reaction" and disturb the "present delicate balance."

French interference with Bao Dai cabinet--A leading Vietnamese official has told US Legation Saigon that French interference is principally responsible for the complications currently delaying the formation of a new Bao Dai government. The official declared that the French were meddling at every step by opposing the appointment of "real nationalists."

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